

QUARTERLY REPORT

LICENSEE: ATLANTIC CITY SHOWBOAT, INC

FOR THE QUARTER ENDED SEPTEMBER 30, 2004

**TO THE
CASINO CONTROL COMMISSION
OF THE
STATE OF NEW JERSEY**

TRADING NAME OF LICENSEE: ATLANTIC CITY SHOWBOAT, INC.

BALANCE SHEETS

AS OF SEPTEMBER 30, 2004 AND 2003

(UNAUDITED)
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2004 (c)	2003 (d)
	ASSETS		
	Current Assets:		
1	Cash and Cash Equivalents.....	30,792	\$ 23,137
2	Short-Term Investments.....	-	-
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2004, \$2,050 ; 2003, \$3,821	5,358	4,073
4	Inventories.....	1,764	1,650
5	Prepaid Expenses and Other Current Assets.....NOTE 4	3,595	4,131
6	Total Current Assets.....	41,509	32,991
7	Investments, Advances, and Receivables.....NOTES 5 & 12	1,459,018	1,331,012
8	Property and Equipment - Gross.....	673,898	662,385
9	Less: Accumulated Depreciation and Amortization.....	(301,397)	(298,618)
10	Property and Equipment - Net.....NOTE 6	372,501	363,767
11	Other Assets.....	1,230	1,594
12	Total Assets.....	\$ 1,874,258	\$ 1,729,364
	LIABILITIES AND EQUITY		
	Current Liabilities:		
13	Accounts Payable.....	3,894	6,257
14	Notes Payable.....	-	-
	Current Portion of Long-Term Debt:		
15	Due to Affiliates.....	-	-
16	Other.....	225	204
17	Income Taxes Payable and Accrued.....	-	-
18	Other Accrued Expenses.....NOTE 7	22,099	24,821
19	Other Current Liabilities.....	406	298
20	Total Current Liabilities.....	26,624	31,580
	Long-Term Debt:		
21	Due to Affiliates.....NOTE 8	715,000	715,000
22	Other.....	206	431
23	Deferred Credits.....	19,227	15,204
24	Other Liabilities.....NOTE 9	1,045,891	909,364
25	Commitments and Contingencies.....NOTE 12		
26	Total Liabilities.....	1,806,948	1,671,579
27	Stockholders', Partners', or Proprietor's Equity.....	67,310	57,785
28	Total Liabilities and Equity.....	\$ 1,874,258	\$ 1,729,364

The accompanying notes are an integral part of the financial statements.
Valid comparisons cannot be made without using information contained in the Notes.

STATEMENTS OF INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

(UNAUDITED)
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2004 (c)	2003 (d)
	Revenue:		
1	Casino.....	\$ 298,593	\$ 280,602
2	Rooms.....	29,225	18,858
3	Food and Beverage.....	38,207	39,169
4	Other.....	4,190	4,448
5	Total Revenue.....	370,215	343,077
6	Less: Promotional Allowances.....	96,605	80,205
7	Net Revenue.....	273,610	262,872
	Costs and Expenses:		
8	Cost of Goods and Services.....	149,510	148,516
9	Selling, General, and Administrative.....	19,873	24,305
10	Provision for Doubtful Accounts.....	38	113
11	Total Costs and Expenses.....	169,421	172,934
12	Gross Operating Profit.....	104,189	89,938
13	Depreciation and Amortization.....	24,500	19,807
	Charges from Affiliates Other than Interest:		
14	Management Fees.....	-	-
15	Other..... NOTE 3	13,012	12,611
16	Income (Loss) from Operations.....	66,677	57,520
	Other Income (Expenses):		
17	Interest (Expense) - Affiliates.....NOTE 8	(43,335)	(43,349)
18	Interest (Expense) - External.....	-	-
19	Investment Alternative Tax and Related Income (Expense) - Net.....	(1,657)	(1,102)
20	Nonoperating Income (Expense) - Net.....NOTE 11	15	723
21	Total Other Income (Expenses).....	(44,977)	(43,728)
22	Income (Loss) Before Income Taxes and Extraordinary Items.....	21,700	13,792
23	Provision (Credit) for Income Taxes.....	9,601	5,454
24	Income (Loss) Before Extraordinary Items.....	12,099	8,338
	Extraordinary Items (Net of Income Taxes -		
25	2003, \$; 2002, \$).....	-	-
26	Net Income (Loss).....	\$ 12,099	\$ 8,338

The accompanying notes are an integral part of the financial statements.
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STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

(UNAUDITED)
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2004 (c)	2003 (d)
	Revenue:		
1	Casino.....	\$ 112,561	\$ 100,500
2	Rooms.....	11,659	9,509
3	Food and Beverage.....	15,506	14,122
4	Other.....	2,294	1,398
5	Total Revenue.....	142,020	125,529
6	Less: Promotional Allowances.....	38,054	30,528
7	Net Revenue.....	103,966	95,001
	Costs and Expenses:		
8	Cost of Goods and Services.....	53,882	50,599
9	Selling, General, and Administrative.....	7,659	8,435
10	Provision for Doubtful Accounts.....	1	33
11	Total Costs and Expenses.....	61,542	59,067
12	Gross Operating Profit.....	42,424	35,934
13	Depreciation and Amortization.....	8,472	6,909
	Charges from Affiliates Other than Interest:		
14	Management Fees.....	-	-
15	Other.....NOTE 3	4,380	4,258
16	Income (Loss) from Operations.....	29,572	24,767
	Other Income (Expenses):		
17	Interest (Expense) - Affiliates.....NOTE 8	(14,444)	(14,448)
18	Interest (Expense) - External.....	-	-
19	Investment Alternative Tax and Related Income (Expense) - Net.....	(509)	(394)
20	Nonoperating Income (Expense) - Net.....NOTE 11	(54)	194
21	Total Other Income (Expenses).....	(15,007)	(14,648)
22	Income (Loss) Before Income Taxes and Extraordinary Items.....	14,565	10,119
23	Provision (Credit) for Income Taxes.....	5,833	1,200
24	Income (Loss) Before Extraordinary Items.....	8,732	8,919
	Extraordinary Items (Net of Income Taxes -		
25	2002, \$; 2001, \$).....	-	-
26	Net Income (Loss).....	\$ 8,732	\$ 8,919

The accompanying notes are an integral part of the financial statements.
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STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003 AND THE NINE MONTHS ENDED SEPTEMBER 30, 2004

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Common Stock		Preferred Stock		Additional Paid-In Capital (g)	(h)	Retained Earnings (Accumulated) (Deficit) (i)	Total Stockholders' Equity (Deficit) (j)
		Shares (c)	Amount (d)	Shares (e)	Amount (f)				
1	Balance, December 31, 2002.....	1,500	\$ 70,492	-	\$ -	\$ -	\$ -	\$ (21,045)	\$ 49,447
2	Net Income (Loss) - 2003.....							5,764	5,764
3	Contribution to Paid-in-Capital.....								
4	Dividends.....								
5	Prior Period Adjustments.....								
6									
7									
8									
9									
10	Balance, December 31, 2003.....	1,500	70,492	-	-	-	-	(15,281)	55,211
11	Net Income (Loss) - 2004.....							12,099	12,099
12	Contribution to Paid-in -Capital.....								
13	Dividends.....								
14	Prior Period Adjustments.....								
15	1999 Income Tax Adjustment								
16									
17									
18									
19	Balance, SEPTEMBER 30, 2004.....	1,500	\$ 70,492	-	\$ -	\$ -	\$ -	\$ (3,182)	\$ 67,310

The accompanying notes are an integral part of the financial statements.
Valid comparisons cannot be made without using information contained in the Notes.

TRADING NAME OF LICENSEE: ATLANTIC CITY SHOWBOAT, INC.

STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

(UNAUDITED)
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2004 (c)	2003 (d)
1	NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES.....	\$ 34,543	\$ 75,270
	CASH FLOWS FROM INVESTING ACTIVITIES:		
2	Purchase of Short-Term Investment Securities.....		
3	Proceeds from the Sale of Short-Term Investment Securities.....		
4	Cash Outflows for Property and Equipment.....	(35,222)	(73,923)
5	Proceeds from Disposition of Property and Equipment.....	13	-
6	Purchase of Casino Reinvestment Obligations.....	(3,475)	(3,344)
7	Purchase of Other Investments and Loans/Advances made.....		
8	Proceeds from Disposal of Investments and Collection of Advances and Long-Term Receivables.....		
9	Cash Outflows to Acquire Business Entities.....		
10			
11			
12	Net Cash Provided (Used) By Investing Activities.....	(38,684)	(77,267)
	CASH FLOWS FROM FINANCING ACTIVITIES:		
13	Cash Proceeds from Issuance of Short-Term Debt.....		
14	Payments to Settle Short-Term Debt.....	16	15
15	Cash Proceeds from Issuance of Long-Term Debt.....		
16	Costs of Issuing Debt.....		
17	Payments to Settle Long-Term Debt.....	(170)	(154)
18	Cash Proceeds from Issuing Stock or Capital Contributions.....		
19	Purchases of Treasury Stock.....		
20	Payments of Dividends or Capital Withdrawals.....	-	-
21			
22			
23	Net Cash Provided (Used) By Financing Activities.....	(154)	(139)
24	Net Increase (Decrease) in Cash and Cash Equivalents.....	(4,295)	(2,136)
25	Cash and Cash Equivalents at Beginning of Period.....	35,087	25,273
26	Cash and Cash Equivalents at End of Period.....	\$ 30,792	\$ 23,137

	CASH PAID DURING PERIOD FOR:		
27	Interest (Net of Amount Capitalized).....	\$ 43,041	\$ 55,541
28	Income Taxes.....	\$ 1,664	\$ -

The accompanying notes are an integral part of the financial statements.
Valid comparisons cannot be made without using information contained in the Notes.

STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

(UNAUDITED)
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2004 (c)	2003 (d)
	NET CASH FLOWS FROM OPERATING ACTIVITIES:		
29	Net Income (Loss).....	\$ 12,099	\$ 8,338
	Noncash Items Included in Income and Cash Items Excluded from Income:		
30	Depreciation and Amortization of Property and Equipment.....	24,500	19,807
31	Amortization of Other Assets.....	255	255
32	Amortization of Debt Discount or Premium.....	-	-
33	Deferred Income Taxes - Current.....	-	-
34	Deferred Income Taxes - Noncurrent.....	2,903	(1,191)
35	(Gain) Loss on Disposition of Property and Equipment.....	359	-
36	(Gain) Loss on Casino Reinvestment Obligations.....	1,657	1,102
37	(Gain) Loss from Other Investment Activities.....		
	Net (Increase) Decrease in Receivables and Patrons' Checks.....	(1,002)	892
39	Net (Increase) Decrease in Inventories.....	(322)	209
40	Net (Increase) Decrease in Other Current Assets.....	(76)	(1,634)
41	Net (Increase) Decrease in Other Assets.....	(46)	(2)
42	Net Increase (Decrease) in Accounts Payable.....	(180)	(874)
	Net Increase (Decrease) in Other Current Liabilities Excluding Debt.....	1,258	(15,243)
44	Net Increase (Decrease) in Other Noncurrent Liabilities Excluding Debt.....	104,181	112,078
45	Net (Increase) Decrease in Invest., Advances, and Receivables.....	(111,043)	(48,467)
46			
47	Net Cash Provided (Used) By Operating Activities.....	\$ 34,543	\$ 75,270

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	ACQUISITION OF PROPERTY AND EQUIPMENT:		
48	Additions to Property and Equipment.....	\$ 35,222	\$ 73,923
49	Less: Capital Lease Obligations Incurred.....		-
50	Cash Outflows for Property and Equipment.....	\$ 35,222	\$ 73,923
	ACQUISITION OF BUSINESS ENTITIES:		
51	Property and Equipment Acquired.....	\$	\$
52	Goodwill Acquired.....		
53	Net Assets Acquired Other than Cash, Goodwill, and Property and Equipment.....		
54	Long-Term Debt Assumed.....		
55	Issuance of Stock or Capital Invested.....		
56	Cash Outflows to Acquire Business Entities.....	\$	\$
	STOCK ISSUED OR CAPITAL CONTRIBUTIONS:		
57	Total Issuances of Stock or Capital Contributions.....	\$	\$
58	Less: Issuances to Settle Long-Term Debt.....		
59	Consideration in Acquisition of Business Entities.....		
60	Cash Proceeds from Issuing Stock or Capital Contributions.....	\$	\$

The accompanying notes are an integral part of the financial statements.
Valid comparisons cannot be made without using information contained in the Notes.

TRADING NAME OF LICENSEE: ATLANTIC CITY SHOWBOAT

SCHEDULE OF PROMOTIONAL EXPENSES AND ALLOWANCES

(\$ IN THOUSANDS)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004

Line (a)	(b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	335,518	\$ 25,277		
2	Food	1,264,273	16,900		
3	Beverage	5,766,657	7,723		
4	Travel	-	-	1,965	344
5	Bus Program Cash	619,400	9,805		
6	Other Cash Complimentaries	1,259,389	35,698	-	-
7	Entertainment	42,467	1,062		
8	Retail & Non-Cash Gifts	-	-		
9	Parking	-	-		
10	Other	15,951	140	6,460	485 *
11	Total	9,303,655	\$ 96,605	8,425	\$ 829

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2004

Line (a)	(b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	131,020	\$ 9,968		\$ -
2	Food	561,137	7,485		
3	Beverage	2,229,509	2,984		
4	Travel			891	156
5	Bus Program Cash	223,103	3,577		-
6	Other Cash Complimentaries	486,036	13,025	-	-
7	Entertainment	37,950	949		
8	Retail & Non-Cash Gifts				
9	Parking	-	-		
10	Other	7,452	66	1,365	103 *
11	Total	3,676,207	38,054	2,256	\$ 259

*Included in the other Promotional Expenses is the cost of Cigarette and Cigar complimentaries in the amount of \$306,000.

*No other individual complimentary service or item within the "Other" category exceeds 5% of that column's total.

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements
(Dollars In Thousands)

(1) ORGANIZATION AND BASIS OF PRESENTATION

Atlantic City Showboat, Inc. (the "Company"), is a wholly-owned subsidiary of Ocean Showboat, Inc. (OSI), which is a wholly-owned subsidiary of Showboat, Inc. ("SBO"). SBO is a wholly owned subsidiary of Harrah's Operating Company, Inc. ("HOC"), which is a direct wholly owned subsidiary of Harrah's Entertainment, Inc. ("Harrah's"). OSI was incorporated in 1983 and is a holding company with its principal assets being investments in the Company. The Company conducts casino gaming operations and operates full supportive services of hotel, restaurant, bar and convention facilities at the Showboat Hotel and Casino in Atlantic City, New Jersey ("Atlantic City Showboat"). On June 1, 1998, Harrah's, a Delaware corporation, purchased SBO and its subsidiaries.

The Company is licensed to operate the facility by the New Jersey Control Commission (the "CCC") and is subject to rules and regulations established by the CCC. The Company's license is subject to renewal every four years with the current license expiring April 2008.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Allowance for Doubtful Accounts

The Company reserves an estimated amount for receivables that may not be collected. The methodology for estimating the allowance includes using specific reserves and applying various percentages to aged receivables. Historical collection rates are considered, as are customer relationships, in determining specific allowances. As with many estimates, management must make judgments about potential actions by third parties in establishing and evaluating the allowance for bad debts.

Inventories

Inventories, which consist primarily of food, beverage and operating supplies, are stated at the lower of average cost or market value.

Land, Buildings and Equipment

Land, buildings, and equipment additions are stated at cost, including capitalized interest on intercompany funds used to finance construction calculated at Harrah's overall weighted-average borrowing rate of interest.

Depreciation is provided using the straight-line method over the shorter of the estimated useful life of the asset or the related lease term, as follows:

Land improvements	12 years
Buildings and improvements	30 to 40 years
Furniture, fixtures and equipment	3 to 12 years

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements
(Dollars In Thousands)

Land, Buildings and Equipment (Cont.)

With the January 1, 2002 adoption of Statement of Financial Accounting Standards ("SFAS") No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the Company reviews the carrying value of land, buildings and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of the asset. The factors considered by the Company in performing this assessment include current operating results, trends and prospects, as well as the effect of obsolescence, demand, competition and other economic factors.

Deferred Financing Cost

Costs associated with the issuance of debt have been deferred and are being amortized to interest expense over the life of the related indebtedness using the effective interest method (Note 5).

Financial Instruments

The carrying amount of cash equivalents, receivables and all current liabilities approximates fair value due to their short-term nature. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties. After giving effect to their allowances, the Casino Reinvestment Development Authority (CRDA) bonds and deposits approximately indicate their fair value based upon their below market interest rates. The carrying amount of long-term debt is estimated to approximate its fair value as the stated rates approximate current rates.

Revenue Recognition

Casino revenues consist of net gaming wins. Food and beverage and rooms revenues include the aggregate amounts generated by those departments.

Promotional Allowances

Gross revenues include the retail value of complimentary food, beverage, theater and hotel services furnished to patrons. The retail value of these promotional allowances is deducted to arrive at net revenues. Recent accounting pronouncements on promotional allowances have been expanded to include cash rebates. The estimated cost of providing complimentary services and cash rebates to customers for the nine months ended September 30, 2004 and 2003, respectively, were as follows:

	<u>2004</u>	<u>2003</u>
Food and Beverage	\$19,284	\$20,762
Rooms	9,293	8,262
Other	683	2,003
Bus Program Cash	9,805	8,256
Other Cash Complimentaries	<u>35,698</u>	<u>28,268</u>
	<u>\$74,763</u>	<u>\$67,551</u>

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements
(Dollars In Thousands)

Income Taxes

The Company is included in the consolidated federal and unitary state tax returns of Harrah's. The provision for federal income taxes is computed based on the statutory federal rate as if the Company had filed a separate income tax return. The provision for state taxes is based on the Company's share of Harrah's unitary New Jersey tax obligation.

Deferred income taxes reflect the net tax effects of temporary difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Omission of Disclosures

In accordance with the Financial Reporting guidelines provided by the Casino Control Commission (the "CCC"), the Company has elected not to include certain disclosures, which have not significantly changed since filing the most recent Quarterly Report. Accordingly, the following disclosures have been omitted: Future Lease Obligations and certain Income Tax disclosures.

Casino Licensing

The Company is licensed to operate the facility by the New Jersey Casino Control Commission (the "CCC") and is subject to rules and regulations established by the CCC. The Company's license is subject to renewal every four years with the current licensing expiring in April 2008.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification

Certain prior year amounts have been reclassified to conform to the current year presentation.

(3) RELATED PARTY TRANSACTIONS

The Company participates with HOC and its other subsidiaries in marketing, purchasing, insurance, employee benefit and other programs that are defined and negotiated by HOC on a consolidated basis. The Company believes that participating in these consolidated programs is beneficial in comparison to the terms for similar programs that it could negotiate on a stand-alone basis.

Certain of the more significant intercompany relationships between the Company and HOC are discussed in this footnote.

Cash Activity with HOC and Affiliates

The Company transfers cash in excess of its operating needs to HOC on a daily basis. Cash transfers from HOC to the Company are also made based upon the needs to the Company to fund daily operations, including accounts payable and payroll, as well as capital expenditures. In addition, the Company transfers cash to HOC to reimburse HOC for payroll costs of certain HOC employees who provide services to the Company. No interest is earned on the amount shown as due from affiliates, net, in the accompanying financial statements.

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements
(Dollars In Thousands)

RELATED PARTY TRANSACTIONS (Cont.)

Administrative and Other Services

The Company is charged a fee by HOC for administrative and other services (including consulting, legal, marketing, information technology, accounting and insurance). The Company was charged approximately \$5,073 and 4,468 respectively for these services for the nine months ended September 30, 2004 and 2003. These fees are included in Charges from Affiliates Other than Interest in the statement of income.

Rental Agreement

The Company leases 10½ acres of Boardwalk property in Atlantic City, New Jersey for a term ending in 2082 from an affiliate. Annual rent payments, which are payable monthly are adjusted annually based upon changes in the Consumer Price Index. The Company is responsible for taxes, assessments, insurance and utilities. Rent expense under this lease for the nine months ended September 30, 2004 and 2003 was \$7,842 and \$7,734 respectively.

(4) PREPAID EXPENSES AND OTHER CURRENT ASSETS

As of September 2004 and 2003, Prepaid Expenses and Other Current Assets consisted of the following:

	<u>2004</u>	<u>2003</u>
Prepaid Slot License	\$1,492	\$1,503
Prepaid Insurance	66	67
Deposits	284	189
Prepaid Advertising	30	19
Prepaid Contracts/Utilities	287	0
Prepaid Income Taxes	591	786
Other	<u>845</u>	<u>1,567</u>
	<u>\$3,595</u>	<u>\$4,131</u>

(5) INVESTMENTS, ADVANCES AND RECEIVABLES

As of September 30, 2004 and 2003, Investments, Advances and Receivables consisted of the following:

	<u>2004</u>	<u>2003</u>
CRDA Deposits (Note 12)	\$21,411	17,563
CRDA Bonds (Note 12)	<u>16,377</u>	<u>15,576</u>
	<u>37,787</u>	<u>33,139</u>
Less: Valuation Allowance on CRDA		
Investments	<u>(11,654)</u>	<u>(9,904)</u>
CRDA Investments, Net	26,134	23,235
Due From Affiliates	<u>1,432,884</u>	<u>1,307,777</u>
	<u>\$1,459,018</u>	<u>\$1,331,012</u>

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements
(Dollars In Thousands)

INVESTMENTS, ADVANCES AND RECEIVABLES (Cont.)

Due From Affiliates consisted of the following:

	<u>2004</u>	<u>2003</u>
HARRAH'S	\$1,432,454	\$1,307,352
Harrah's Atlantic City	61	61
Showboat Indiana	14	14
Harrah's Lake Tahoe	19	19
Harrah's Joliet	8	8
Harrah's Ak-Chin	291	291
Harrah's North Kansas City	<u>37</u>	<u>32</u>
	<u>\$1,432,884</u>	<u>\$1,307,777</u>

(6) LAND, BUILDINGS AND EQUIPMENT

As of September 30, 2004 and 2003, Land, Building and Equipment consisted of the following:

	<u>2004</u>	<u>2003</u>
Land and Land Improvements	\$19,347	\$19,144
Building and Improvements	436,620	420,805
Furniture, Fixtures and Equipment	209,206	203,350
Construction in Progress	8,235	18,596
Other property and equipment	<u>490</u>	<u>490</u>
	673,898	662,385
Less-accumulated depreciation and amortization	<u>(301,397)</u>	<u>(298,618)</u>
	<u>\$372,501</u>	<u>\$363,767</u>

(7) OTHER ACCRUED EXPENSES

As of June 30, 2004 and 2003, Other Accrued Expenses consisted of the following:

	<u>2004</u>	<u>2003</u>
Salaries and Wages	\$8,014	\$7,782
Taxes, Other Than Taxes on Income	2,306	1,507
Accrued Advertising and Promotion	2,209	3,750
Accrued Interest	4,782	4,782
Other	<u>4,788</u>	<u>7,000</u>
	<u>\$22,099</u>	<u>\$24,821</u>

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements
(Dollars In Thousands)

AMENDED
12/17/08

(8) LONG-TERM DEBT

On May 18, 1993, SBO issued \$275,000 of 9 ¼ % First Mortgage Bonds due 2008 ("9 ¼ % Bonds") and subsequently loaned approximately \$215,000 of the proceeds to the Company evidenced by an intercompany note with terms and conditions consistent with those of the 9 ¼ % Bonds. Subsequent to the acquisition of SBO by Harrah's on June 1, 1998, Harrah's completed tender offers and consent solicitations for SBO's 9 ¼ % Bonds. As a result of the receipt of the requisite consents, Harrah's eliminated or modified substantially all of the negative covenants, certain events of default and made other changes to the respective indentures governing the 9 ¼ % Bonds.

On January 15, 1999, the Company entered into a \$500,000 intercompany promissory note with HOC. The debt terms are consistent with the provisions of third party credit agreements arranged by HOC. The intercompany note is due on January 15, 2009 and is secured by the assets of the Company. Interest is payable semiannually at a rate of 7 ½ %.

On March 12, 2003 both the 9 ¼ % and 7 ½ % Promissory Notes were assigned by their respective holders to Harrah's Entertainment Limited. The terms and amounts of the debt were not affected by this assignment. The only notable change is that interest will be paid monthly instead of semiannually. Interest payments related to long-term debt are included in the Amounts Due to Affiliates.

(9) OTHER LIABILITIES

As of September 30, 2004 and 2003, Other Liabilities consisted of the following:

	<u>2004</u>	<u>2003</u>
Due to Affiliates, Long-Term	\$1,045,726	\$909,098
Other	<u>165</u>	<u>266</u>
	<u>\$1,045,891</u>	<u>\$909,364</u>

Due To Affiliates, Long Term consisted of the following:

	<u>2004</u>	<u>2003</u>
HARRAH'S	\$619,490	\$491,225
SBO	409,450	403,473
Harrah's Las Vegas	6,437	6,435
Harrah's Reno	21	21
Harrah's Tunica	11	11
Harvey's Tahoe	663	663
Harrah's Laughlin	14	14
Rio Las Vegas	83	83
OSI	38	38
Harrah's Atlantic City	9,179	6,606
Showboat Operating Company	<u>340</u>	<u>528</u>
	<u>\$1,045,726</u>	<u>\$909,098</u>

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(10) LEASES

The Company has operating leases for office space, office equipment, and slot machines, which expire on various dates through 2008. Rental expense included in the accompanying statement of income for the nine months ended September 30, 2004 and 2003 was approximately \$3,007 and \$4,081, respectively.

(11) NON-OPERATING INCOME(EXPENSE)

For the nine months ended September 30, 2004 and 2003, Non-Operating Income (Expense) consisted of the following:

	<u>2004</u>	<u>2003</u>
Interest Income	\$606	\$723
Preopening/Demolition Expense	(232)	<u>0</u>
Gain/Loss on Asset Sales	<u>(359)</u>	<u>0</u>
	<u>\$15</u>	<u>\$723</u>

(12) COMMITMENTS AND CONTINGENCIES

License Renewal

During January 2001, the CCC renewed the Company's license to operate its casino hotel complex in Atlantic City. A casino license is not transferable and must be renewed every four years by filing an application, which must be acted upon by the CCC no later than 30 days prior to the expiration of the license then in force.

Litigation

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, these matters will not have a material effect on the Company's financial position or results of operations.

CRDA Investment Obligation

The New Jersey Casino Control Act provides, among other things, for an assessment of licenses equal to 1.25% of their gross gaming revenues in lieu of an investment alternative tax equal to 2.5% of gross gaming revenues. The Company may satisfy this investment obligation by investing in qualified eligible direct investments, by making qualified contributions or by depositing funds with the CRDA. Funds deposited with the CRDA may be used to purchase bonds designated by the CRDA or, under certain circumstances, may be used to purchase bonds designated by the CRDA in exchange for credits against future CRDA investment obligations. CRDA bonds have terms up to 50 years and bear interest at below market rate. The Company includes CRDA investment bonds and funds on deposit in deferred charges and other non-current assets in the accompanying balance sheets. The Company records charges to operations to reflect the estimated net realizable value of its CRDA investment obligations.

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Notes to Financial Statements

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CRDA Investment Obligation (Cont.)

Deposits with the CRDA bear interest at two-thirds of market rates resulting in a current value lower than cost. As more fully disclosed in Note 5, at September 30, 2004 and 2003, Investments, Advances, and Receivables include \$26,134 and \$23,235 respectively, representing the Company's bond purchases and deposits with the CRDA, net of the valuation allowance. The carrying value of these deposits, net of the valuation allowance, approximates fair value.

In December 1999, the CRDA approved a credit exchange agreement between the Company and Harrah's Atlantic City ("HAC", a wholly-owned subsidiary of HOC). The credit exchange agreement resulted in the Company exchanging approximately \$4,628 of its Atlantic City Housing current obligations for approximately \$4,628 of HAC's South Jersey future obligations. The remaining balance of the Swap was approximately \$0 and \$0 at September 30, 2004 and 2003